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SUBJECT: BRAZIL: AMAZON FUND AND OTHER FUNDS TO PROTECT THE
ENVIRONMENT - MAKING REAL PROGRESS

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1. (SBU) SUMMARY. The Amazon Fund created in August 2008 and funded by a US\$1 billion pledge from Norway has just announced its first block of approved projects to help monitor and reduce deforestation in Brazil's Amazon region. Brazil also has now passed a law that will establish a National Climate Change Fund, which Environment Minister Carlos Minc says will be funded with up to Reals 1 billion (nearly US\$600 million) per year from 10 percent of the proceeds of oil production. Further, Minister Minc announced that he wants to create a Cerrado Fund to finance forest conservation projects in Brazil's vast savannah region. END SUMMARY.

AMAZON FUND

2. (SBU) While in Oslo to receive the Nobel Peace Prize, President Obama took time to praise the Amazon Fund (or "Fundo Amazonia") as a model for addressing deforestation. The Amazon Fund deserves attention because it is one of the world's first large-scale and best financed REDD (reducing emissions from deforestation and forest degradation) mechanisms. The Amazon Fund was created by presidential decree in August 2008 (REFTEL A). It is the Government of Brazil's (GOB) preferred mechanism for channeling international financial support to reduce deforestation. The GOB particularly likes that (1) Brazilians - and not the donors - decide how to use the funds within certain guidelines spelled out in the decree establishing the fund, and (2) the emissions reductions resulting from the funded projects cannot be used as credits or offsets by the donors. To make the fund more attractive to donors, the GOB agreed to only make disbursements if the rate of Amazon deforestation is lower than a base line (for now it is compared with a high initial base line figure).

3. (SBU) In September 2008, Norway announced that it would give up to US\$1 billion through 2015. Norwegian Charge Inge Nordang tells Post that Norway is pleased with the progress made so far by the fund. Consequently, he said that Norway has allocated 700 million Norwegian Krone (about US\$ 110 million for 2009), and 750 million Norwegian Krone (about US\$ 125 million) for 2010 and 2011. After 2011, Norway will need to make new budget allocations. No other country has made a contribution to the fund, however, German Charge

Hermann Sausen says that Germany is looking at making a contribution of 18 million Euros in 2010 and possibly similar additional contributions in later years. In addition, Germany plans on providing four million Euros to help develop Brazil's capacity at the national, state and local levels to handle these funds.

14. (SBU) The Amazon Fund has now entered the operational phase. On December 9, the fund's manager, National Bank of Social and Economic Development (BNDES), announced that it had approved the first group of projects. BNDES plans to distribute over the next three years a total of Reals 70.3 million (about US\$ 40 million) to the following five projects:

- The State of Amazonas (which is about the size of Alaska and contains nearly half of the Amazon Forest in Brazil) operates the Sustainable Amazonas Foundation ("Fundacao Amazonas Sustentavel"), which will receive Reals 19.2 million (about US\$11 million) from the Amazon Fund to support a near doubling of the Forest Support Program ("Programa Bolsa Floresta"). That state-level program provides funds to local communities and small monthly allotments to families living in the forests in Amazonas State to preserve the forest and to develop sustainable economic alternatives to deforestation.

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- IMAZON (the "Amazon Institute of People and the Environment" or "Instituto de Homem e Meio Ambiente da Amazonia") will receive Reals 9.7 million (nearly US\$6 million) to help in monitoring deforestation and support land title registration in the State of Para, which is where much of the deforestation is occurring. IMAZON is a USAID partner. It has gained a well-deserved reputation for excellent analysis of satellite imagery to detect and monitor deforestation.

- The Nature Conservancy-Brazil (TNC Brasil), also a USAID partner, will get Reals 16 million (about US\$9 million) for use in 12 municipalities with some of the highest rates of deforestation in the States of Para and Mato Grosso. The money will support land title registration efforts and also promote efforts to ensure that wood, soy and cattle from illegally cleared land do not enter the market.

- The Green Gold Institute ("Instituto Ouro Verde") plans to promote the recovery of 1.2 million hectares of degraded areas and support sustainable family farming in six municipalities. The fund will provide it with Reals \$5.4 million (about US\$3 million).

- FUNBIO (the Brazilian Fund for Biodiversity) will use the Reals 20 million (about US\$12 million) from the Amazon Fund to support the creation of 13.5 million hectares of conservation units in the Amazon, and supporting the consolidation of 32 million hectares of existing conservation units. NOTE: The GOB intends to use FUNBIO to implement a US\$ 20 million Tropical Forest Conservation Act (TFCA) program if the terms of an agreement can be worked out with the USG. END NOTE.

15. (SBU) While generally satisfied with the Amazon Fund, Norway does emphasize one particular change it would like to see. Norway is increasing the pressure on the GOB to accept projects for monitoring and control of deforestation in other biomes in Brazil and in other tropical forest countries. The Amazon Fund's decree specifically provides that up to 20 percent of its resources can be used for other biomes and countries. Norway wants to see the fund

support such projects, said Charge Nordang.

NATIONAL FUND FOR CLIMATE CHANGE

16. (SBU) The GOB is in the process of creating a National Fund for Climate Change, financed from expected oil revenues. It would use the money for actions to mitigate emissions and for measures to adapt to climate change throughout Brazil, not just in the Amazon biome or in forests. On December 9, President Luis Inacio Lula da Silva signed the National Climate Change Policy law, which included a provision to create the fund. Environment Minister Minc said he expected this new fund to annually receive between Reals 800 million and 1 billion (about US\$ 470 to 600 million), which would come from up to 10 percent of oil revenues. While the creation of the National Fund for Climate Change has been approved, much remains to be done to bring it to life. Most importantly, the funding levels and mechanisms are still in question. The internal debate over the use of the expected revenues from exploiting the vast off shore reserves is only heating up. It is not clear how much, if any, of those revenues will flow into this new fund.

CERRADO FUND

17. (SBU) On December 3, Environment Minister Minc told the press that the GOB planned to replicate the Amazon Fund with a similar fund for the central-western savannah region called the Cerrado.

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This new Cerrado Fund would combat deforestation in the Cerrado and also help preserve biodiversity. Reducing deforestation in the Cerrado has taken on greater importance for the GOB because it is Brazil's second biggest mitigation action, after reducing deforestation in the Amazon region. The GOB has set a goal of lowering the rate of deforestation in the Cerrado by 40 percent by 2020, which it calculates will save about 104 million tons of CO2 per year.

COMMENT

18. (SBU) Brazil with its Amazon Fund is beginning to implement large scale REDD projects. The lessons learned from this experience should prove useful to managing the expected large infusions of international financing for REDD projects in Brazil and elsewhere coming out of Copenhagen. Further, the capacity being developed at all levels - national, state and local - in handling REDD projects in Brazil will be beneficial to funding from the United States in the future, whether through USAID, TFCA, or forest offsets related to a cap-and-trade arrangement. It is good sign of growing maturity and independence that the GOB is contemplating using some of the substantial oil revenues it expects to receive from exploiting its massive offshore oil reserves to address climate change through the new National Climate Change Fund. Finally, a Cerrado Fund could assist the GOB in trying to meet one of its largest mitigation action proposed at Copenhagen.

END COMMENT.

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